FALSE REPORTS OF HIGHER SOVIET OIL TARGET FOR 1974

Western press reports of a higher goal for Soviet crude oil production in 1974 are not true.

V.D. Shashin, Minister of the Oil Industry, recently referred to an oil output target of 458 million tons in 1974, which would be about 37 million tons more than in 1973. The officially announced goal for crude oil production in 1974 is 451 million tons, about 30 million tons over 1973 output.

Shashin is up to his old tricks of announcing non-comparable planning and production figures in an effort to present a more optimistic picture of the Soviet oil industry. The goal of 458 million tons is inflated by inclusion of about 7 million tons of gas condensate (natural gas liquids). All of the original plans for production of crude oil in 1971-75 have excluded gas condensate. The 1973 figure for output comparable with that announced by Shashin was almost 429 million tons of crude oil and condensate. In either case, the target for 1974 is about 30 million tons above actual output in 1973. (UNCLASSIFIED)■

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THE EAST EUROPEAN OIL BILL: SOME KEY JUDGMENTS

Increased oil prices should not hurt Eastern Europe seriously through 1975. But the outlook for 1976-80 is much gloomier.

- Soviet oil deliveries are expected to level off after the 1971-75 trade agreement expires; prices paid for Soviet oil probably will then be raised in line with world prices.
- If prices stabilize at roughly \$10 a barrel for crude, the East Europeans in 1980 would have to pay \$5.9 billion more for oil – \$4.0 billion to the USSR and \$1.9 billion to the West.
- The projected 1980 oil bill would add about 20% to projected imports from the USSR and 10% to hard currency imports.
- Bulgaria will be by far the hardest hit, followed by Hungary, East Germany, and Czechoslovakia; Poland still relies heavily on coal.

To pay for Soviet oil, Eastern Europe will have to greatly boost exports of consumer goods and machinery and pour more investment into the Soviet resource base. Moscow probably will have to offer new credits or deferred payments for oil in return for East European investment.

To pay for Western oil, Eastern Europe will need more barter agreements with the Middle East or long-term credits like those the oil producing countries are likely to provide to the LDCs.

Even with Soviet and Western assistance, most East European countries will not be able to avoid severe strains on their balances of payments and on their domestic economies in 1976-80. (SECRET)

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NORTH STAR PROJECT: METHANOL INSTEAD OF LNG?

US and Soviet government officials are discussing the possibility of delivering methanol instead of liquefied natural gas from Siberian gasfields to the United States. Methanol (wood alcohol) is a clean-burning product that can be used directly as fuel in powerplants or industrial furnaces, can be blended with motor gasoline to increase gasoline supply, or can be reconverted to gas. Current studies indicate that, on a comparable BTU basis, methanol can be delivered to the US east coast about 20%-25% cheaper than can LNG, if the delivery distance exceeds 5,000 miles.

The North Star Project originally called for a consortium of three US firms to build: (1) a 1,500-mile 48-inch-diameter pipeline from the Urengoy gasfield in West Siberia to Murmansk, (2) a liquefaction plant at Murmansk, and (3) 20 LNG tankers to deliver 2 billion cubic feet per day of LNG to the US east coast at $1.25 per 1,000 cubic feet (equivalent to about $7.50 per barrel of oil). Negotiations toward a final agreement have bogged down, especially since early 1974 when Soviet negotiators requested $2.00 per 1,000 cubic feet of gas f.o.b. the Soviet port, instead of 60¢ per 1,000 cubic feet as discussed in earlier talks.

A methanol project would entail construction of a large methanol plant in the Urengoy field, movement of liquefied methanol through a short pipeline to ports in the Ob Gulf, and delivery of methanol to the US east coast in conventional oil tankers. The project would obviate the need for a long-distance, high-pressure gas pipeline across permafrost, a liquefaction plant, and expensive LNG tankers. The hitch in the scheme is that a methanol plant of the size required to make the deal economical has never been built anywhere in the world. Moreover, the proposed transport of

methanol from ports in the Ob Gulf (north of Urengoy) using ice breakers appears doubtful. The Soviets have been unable to keep these ports open all year to provide supplies to the area.

Whether the same US consortium would be involved in a project producing methanol instead of LNG is not known at this preliminary stage of discussion. However, while negotiations are stalled, the USSR is proceeding with its own plans to develop the Urengoy gas deposit. Equipment has been delivered on site, and the first wells are to be drilled this year. ([redacted])■

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COMMUNIST AID BOOSTS IRAQ'S PETROLEUM SECTOR

On 7 April, Baghdad celebrated the completion of both the second stage development of the North Rumaylah oilfield and the Basra oil refinery, major Communist aid undertakings in Iraq. Plans call for further expansion of these projects, probably with large new Communist credits.

North Rumaylah, in southern Iraq, contains about 20% of the country's total proved oil reserves. Production capacity at this largely Soviet-developed field has reached 360,000 b/d, about 15% of Iraq's current capacity. In February, Moscow offered to accelerate its work on the third stage at North Rumaylah, which would raise capacity to nearly 1 million b/d by late 1975.

The Basra refinery, built with a $27 million credit from Czechoslovakia, adds 70,000 b/d to Iraq's refining capacity. Prague recently held talks with the Iraqis on expanding the refinery. Moscow soon will begin construction of a 30,000-b/d refinery at Mosul, in northern Iraq, for which it has allocated some $31 million of credits. These two refineries, when fully operational, will double Iraq's 1972 refining capacity.

Iraq is the first major oil-producing country to have accepted large amounts of Communist aid for its petroleum sector. These commitments have totaled about $300 million since 1969, nearly two-thirds from the USSR. In addition to its oilfield development aid and projected refinery construction, Moscow is building a 375-mile petroleum products pipeline between Baghdad and the Basra refinery. A Soviet pipeline extension from Baghdad to northern Iraq also is in the planning stage. [redacted]

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